The Retail Sales and Use Tax Relationship with Transportation

There are two critical factors to creating and sustaining a robust economy. First, a strong education system is required to produce a talented workforce. Second, a transportation network that provides connectivity and accessibility, free of the delays of congestion, is necessary to support the efficient movement of people, goods and services. The Commonwealth's GDP is tied to these factors.

A robust economy is dependent upon a modern, efficient transportation system. The Texas Transportation Institute ranked the Washington D.C./Northern Virginia area as the nation's most congested in 2011, and Hampton Roads isn't far behind. CNBC dropped Virginia from 1st to 3rd in its business rankings due, in large part, to inadequate long-term transportation funding. The transportation network is essential to a strong economy, and increased investment in Virginia's transportation infrastructure is needed to prevent further decline.

In many ways, the transportation network is the hub of the economy. Every facet of personal and private business depends on effective and efficient transportation. The transportation network, whether car, bus, train or plane, is an intrinsic component of economic activity. Transportation is required to go to work to earn an income. Transportation is required to move goods and services to the market place. And, transportation is needed to bring the consumer and the marketplace together. Transportation is also critical to support our personal lives, carrying us to and from school and supporting healthcare needs.

There is a clear and undeniable link between economic prosperity and transportation. Our leaders recognized this in 1986 when they increased the retail sales and use tax by .5 cents and dedicated it to transportation. As the world has evolved over the last 25 years, producing more fuel efficient vehicles and the introduction of alternative fuel vehicles, this link has become stronger.

A sales and use tax increase, dedicated to transportation, was a critical part of the last major transportation revenue reform in 1986. The whole economy depends on a sound transportation infrastructure. All citizens benefit from a sound transportation system, in ways that go beyond their direct personal use of the system (as measured, for example, by the number of miles they drive or the number of gallons of gas they buy). To fund the transportation system by a revenue instrument that is linked to the whole economy is therefore fair.

- Business competitiveness depends on timely, cost-effective shipping.
- Job creation depends on business start-up and relocation decisions.
- Non-drivers depend on the transportation system for goods delivery and personal mobility.
- Communities depend on transportation systems that facilitate emergency response and military mobility (the movement of "public goods").

A sustainable revenue source must keep pace with the growth of the Virginia economy, including nominal growth due to price inflation. The motor fuel tax, as currently structured, produces a revenue stream that keeps pace neither with price increases nor with increases in the use of the transportation system. The retail sales and use tax, on the other hand, produces a revenue stream that grows as the state's commerce grows.

- The motor fuel tax is a flat 17.5¢ per gallon; as it is not indexed to inflation, its revenue does not rise when prices rise.
- As fuel consumption does not grow as fast as vehicle miles traveled, due to increases in fuel economy, motor fuel tax revenue does not keep pace with miles traveled on the highway system.
- Further, the Code of Virginia (§§ 33.1-23.5:1 and 33.1-41.1) requires maintenance payments to localities to be annually adjusted to account for inflation. In other words, expenditures are indexed, while revenues are not.

The observations above, regarding the relation of the retail sales and use tax to the economy as a whole, and regarding its reliability as a sustainable funding source, apply as well to some of the other non-gasoline-tax components of transportation revenue. The state motor vehicle sales and use tax and the state recordation tax, for example, also produce revenues that reflect the overall level of economic activity in the Commonwealth.

One must also take into consideration the fact that the revenues "dedicated" to transportation, including the motor fuel tax, have always (since 1986 at least), in accordance with legislation, supported a variety of transportation modes other than highway, and a variety of activities that are linked loosely, at most, to transportation. VDOT does not retain and spend 100% of the revenues, such as the existing motor fuel tax, that are dedicated to transportation. In practice these revenues are parceled out to other agencies to support a variety of activities and services linked to transportation.

The VDOT Annual Budget for the fiscal year 2012-2013 reports that VDOT will transfer the following funds dedicated to roads to other state agencies:

- The Department of Education - $243,919;
- The Marine Resources Commission - $313,768;
- The Department of State Police - $7,795,519;
- The Department of Minority Business Enterprise - $1,522,662;
- The Department of Historic Resources - $100,000;
- The Department of Rail and Public Transportation - $5,236,863;
- The Department of Emergency Management - $933,251;
- The Department of Motor Vehicles - $11,532,000;
- The Virginia Port Authority - $2,550,023;
- The Department of the Treasury - $185,187;
- The Virginia Commercial Space Flight Authority - $9,500,000; and,
- The Virginia Liaison Office - $143,205.

The Annual Budget notes further that in 2012-2013 transfers from the Transportation Trust Fund to the General Fund will also go to the Department of General Services, the Department of Agriculture and Transportation Services, the Chesapeake Bay Initiatives, the Department of Taxation, and to Telecommunications Contract Savings, for purposes that have no firm linkage to transportation at all. In total, VDOT is projected to transfer over $56 million in transportation revenues meant for roads to other state agencies. The existence of this "leakage" to other activities supplies another argument for using a broad-based revenue instrument such as the retail sales and use tax.